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Welfare, inequality and poverty in 12 Latin American countries

Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, El Salvador, Mexico, Paraguay, Peru, Uruguay and Venezuela

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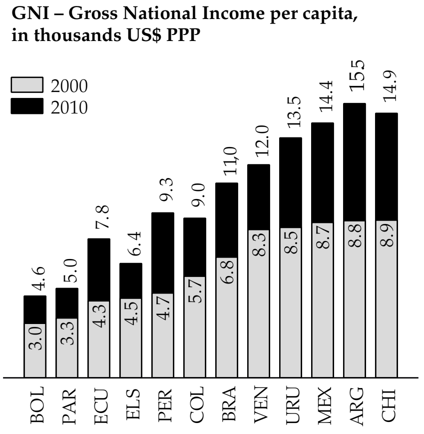
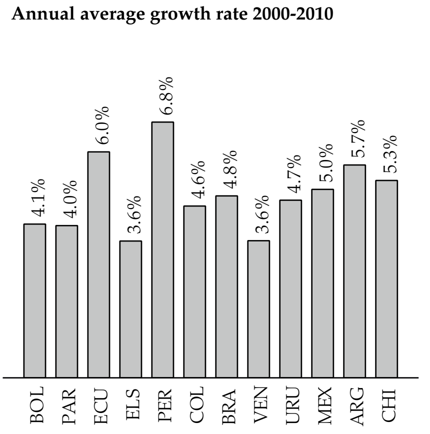
The 2000s were good for many Latin American countries. Welfare gains have been unequivocal for the 12 ones considered here, with income growth coupled with the reduction of inequality, resulting in reductions in poverty rates. These countries have benefited from the international conjuncture, which increased the demand for their export products, but part of the result, in particular, the fall in income inequality and poverty, was due to the expansion of social policies, especially for conditional and targeted income transfers, largely adopted in Latin America.

Chart 1. Gross National Income per capita, 2000 and 2010; annual average growth rate



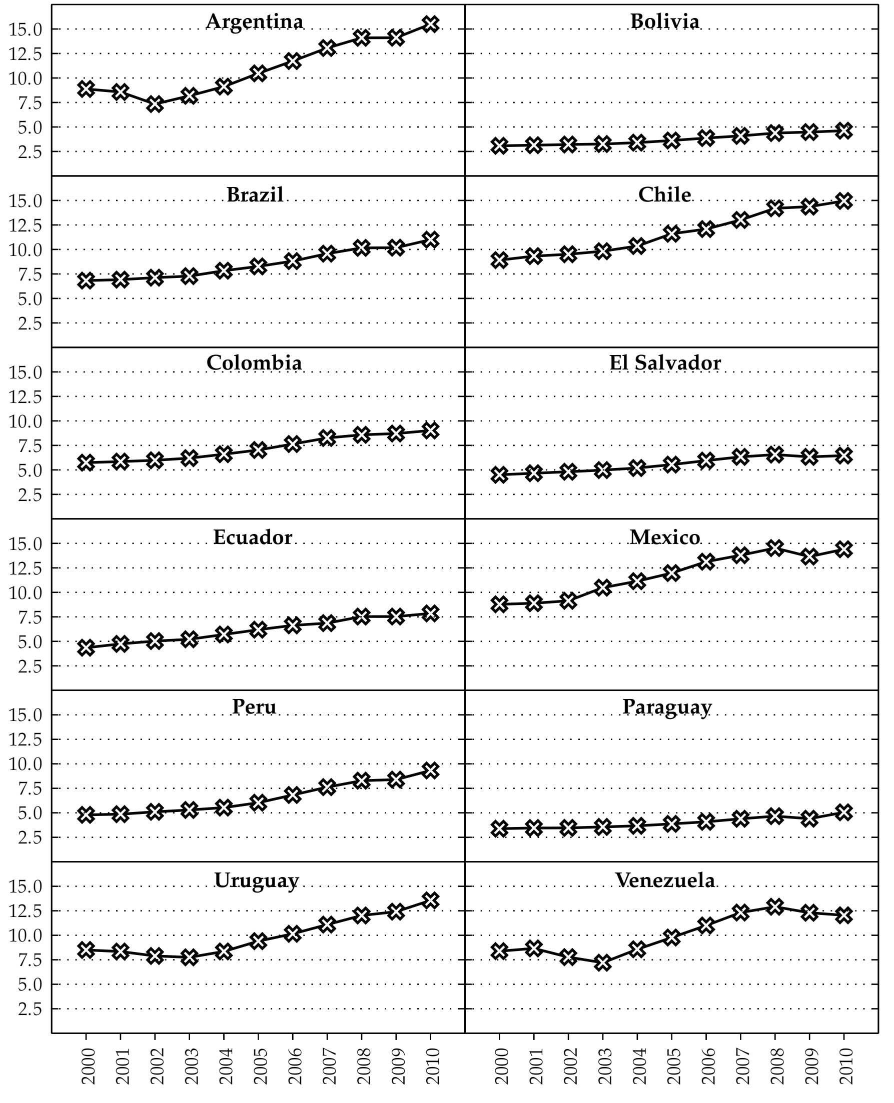


Source: World Bank. World Development Indicators and Global Development Finance.

Chart 1 summarizes the growth of the Gross National Income per capita. The GNI is the Gross Domestic Product less what foreign companies and people earned in the country and remitted overseas plus what national companies and citizens abroad remitted to the country. From 2000 to 2010, the GNI per capita of the 12 countries grew on average 4.9% annually. The growth rate of most countries was around this average, except for Venezuela and El Salvador, with the worst performances, and Ecuador and Peru, countries with a higher growth.

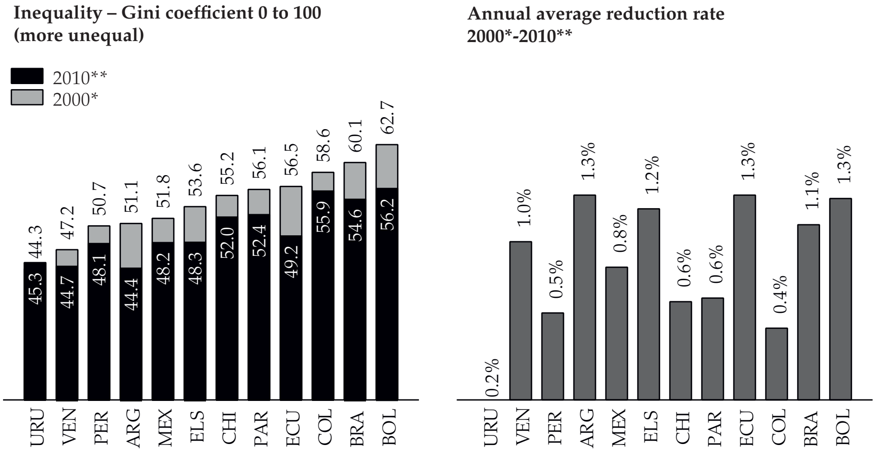
Besides GNI per capita have grown in all these countries from 2000 to 2010, growth trajectory displays similar moments, as illustrated in Chart 2. From 2000 to 2003, growth is slow and, in some cases, GNI decreases. For Argentina, Uruguay and Venezuela the years 2002 and 2003 recorded the lowest income in the decade. From 2003 to 2008, income begins to grow at higher rates, a difference that is particularly clear in the series of Argentina, Chile, Mexico, Uruguay and Venezuela, the five richest of the group. In 2008-2009, the series of all countries show the impact of the international crisis, with reduced growth or even decline of GNI per capita, although, with the exception of Venezuela, all show a slight recovery in 2010.

Chart 2. Gross National Income per capita, 2000-2010



Source: World Bank. World Development Indicators and Global Development Finance.

Chart 3. Inequality, Gini coefficient, 2000 and 2010; annual average reduction rate



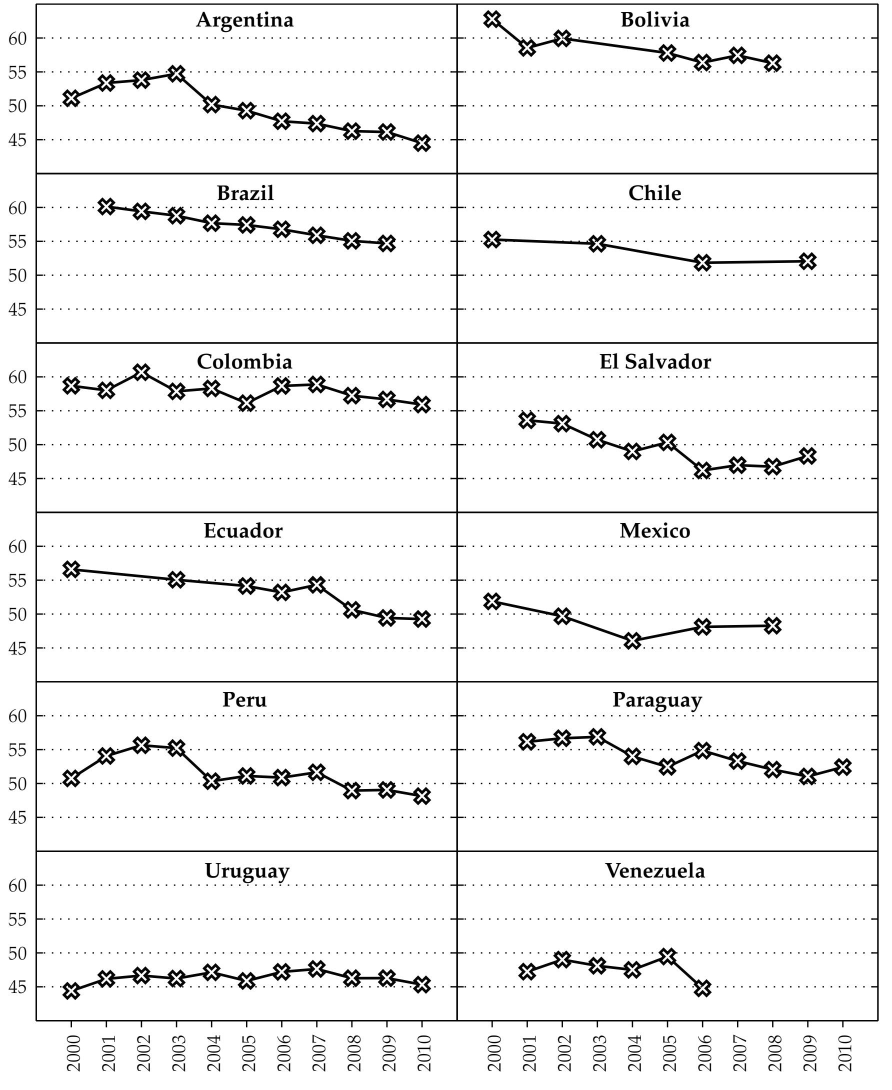
* Except BRA, ELS, PAR, VEN: 2001
**Except BRA, CHI, ELS: 2009; MEX, BOL:2008; VEN:2006

Source: World Bank. World Development Indicators and Global Development Finance.

The income growth was accompanied by the reduction of inequality in the distribution of household income per capita. In 11 countries, the Gini coefficient fell on average 0.89% per annum for the period observed – which varies from country to country in Chart 3. The only country with a higher inequality in 2010 than in 2000 is Uruguay, which, however, is one of the less unequal countries and was the less unequal in 2000, with the lowest recorded Gini. In fact, no country has yet achieved Uruguay's Gini level of the year 2000, and an interesting issue to be noted in the coming years is whether countries will be able to reduce their Gini coefficient below 40.

The inequality falling trajectories in those countries are more varied than those observed in relation to GNI, as can be seen from Chart 4. Brazil stands out for a continuous and almost linear decrease, without the atypical years of higher inequality seen in the series of various countries. Anyway, in some countries, notably Argentina, Peru and Uruguay, the beginning of the 2000s was marked by increased income inequality. In the same way as observed for GNI, the inequality series also show the impact of the 2008-2009 crisis in countries whose data encompass this period. These countries had been experiencing the steepest declines in inequality from 2006-7, a trend which was almost interrupted in the 2008-9 period.

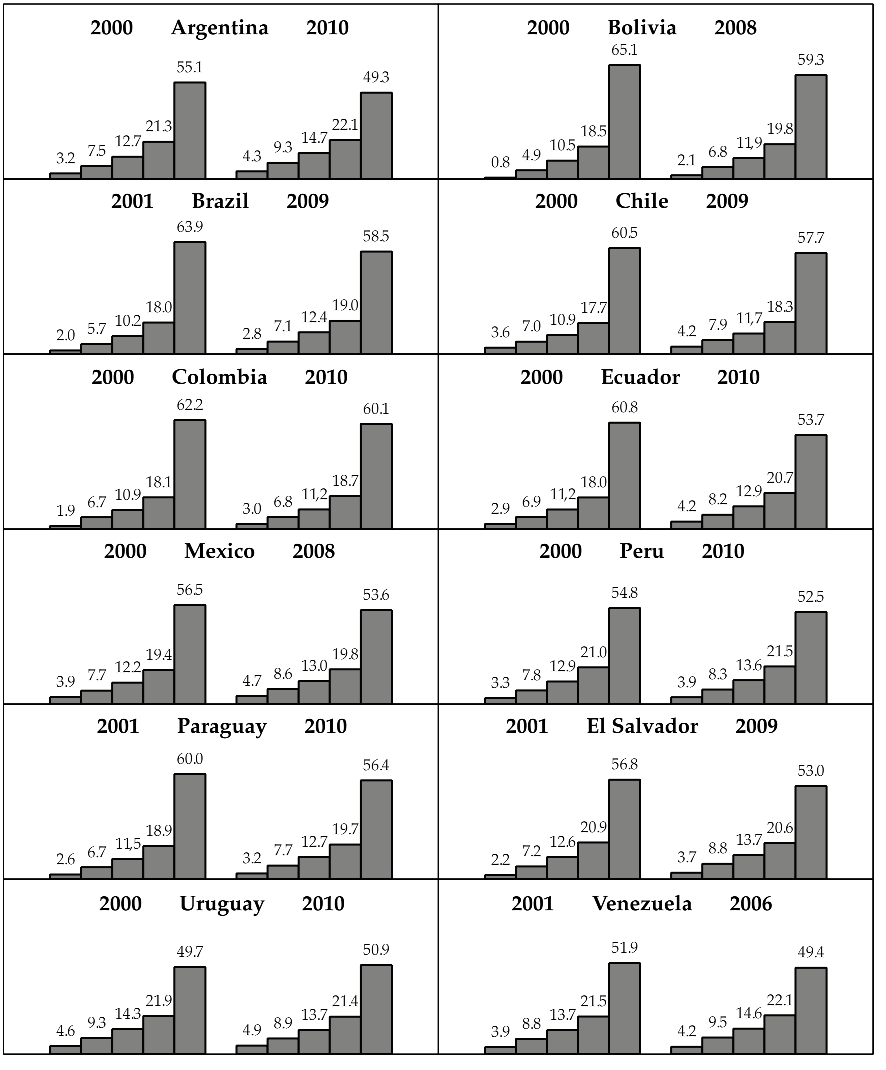
Chart 4. Inequality, Gini coefficient, 2000-2010



Source: World Bank. World Development Indicators and Global Development Finance.

Despite the decrease, inequality in the 12 countries considered remains high and the stratification of the population into quintiles according to the distribution of income does not change much, as shown in Chart 5. Despite the differences in Gini coefficients, the contours of stratification per income of the 12 countries are extremely similar. During the period, except in Uruguay, the four poorest quintiles of the distribution had their share of total income slightly increased compared with the share of the richest 20%. Still, at the end of the decade, the share of income secured by the richest 20% of the population ranged from 50 to 60% of total income, while in no country the share secured by the poorest 20%exceeded 5% of total income. Although the share of total income flowing to the poorest 20% remains very reduced in relative terms, its growth in the decade was substantial in several countries.

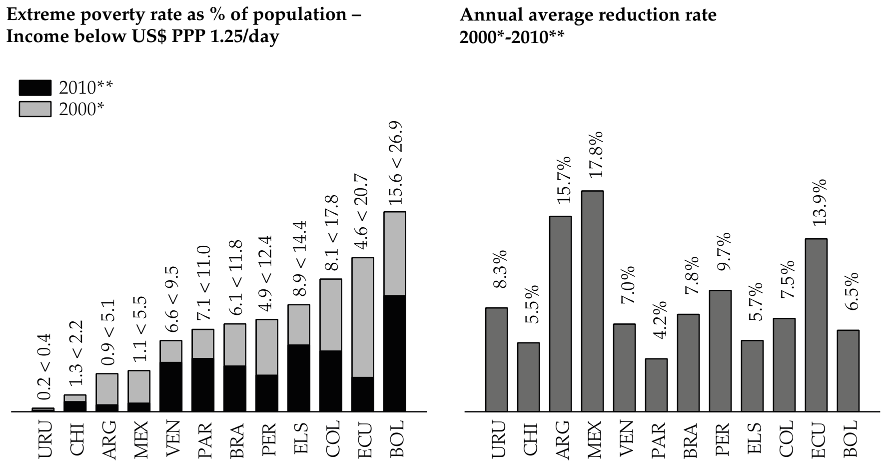
Chart 5. Inequality, shares, percentage-wise, of the total income per household income distribution quintiles per capita



Source: World Bank. World Development Indicators and Global Development Finance.

Income growth combined with a reduction in inequality reduced in all countries the percentage of the population living on less than US$ 1.25 a day, adjusted for purchasing power parity (PPP), the international extreme poverty line defined by the World Bank and used by the United Nations as the main monitoring indicator of the first Millennium Development Goal (cutting, by 2015, the global extreme poverty rate to half of its 1990 level). The extreme poverty rate in 2000 or 2001, and in 2010 or another year close to that, as well as its annual average reduction rate can be seen in Chart 6. In the sub-chart on the left, the larger numbers in italics are related to 2010 and refer to the black bars.

Chart 6. Extreme poverty rate US$ PPP 1.25/day, 2000 and 2010; annual average reduction rate



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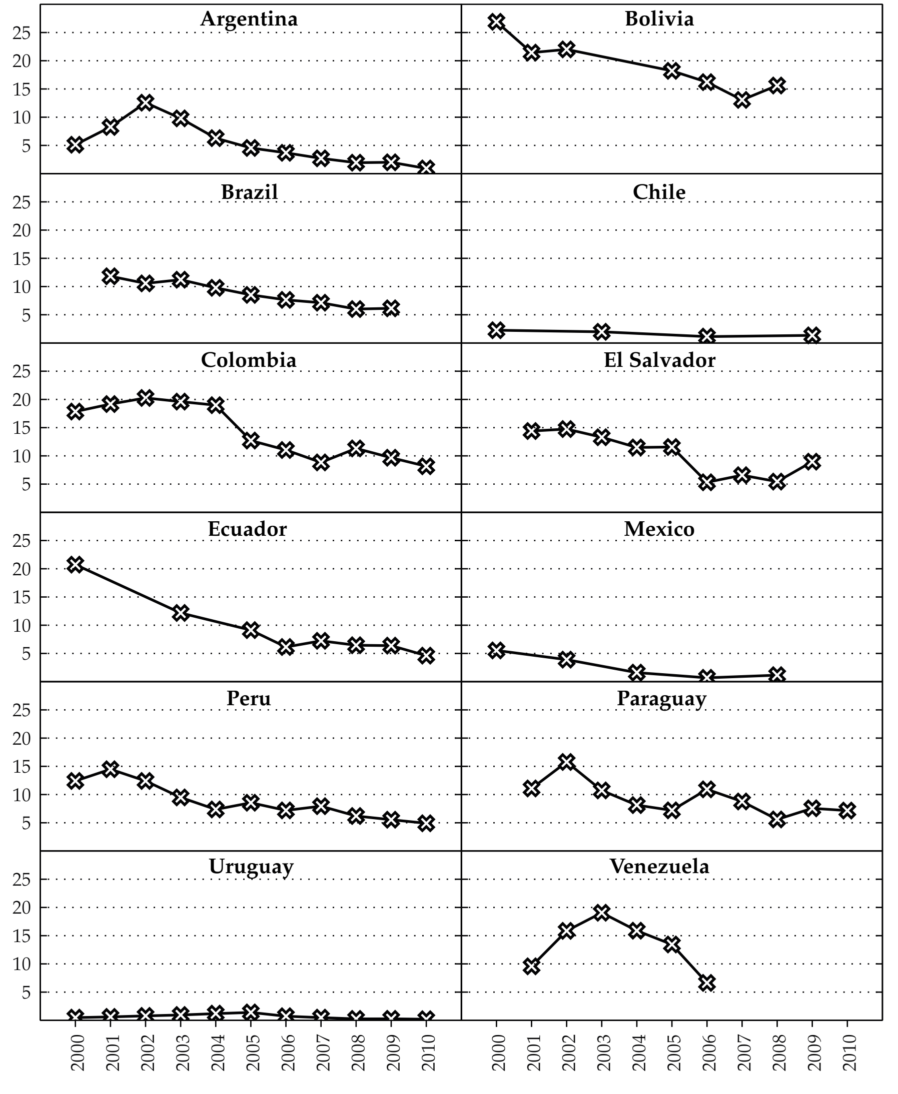
Source: World Bank. World Development Indicators and Global Development Finance.

Only Uruguay and Chile had an extreme poverty rate below 5% of the population in the early 2000s, but four more countries have achieved this target throughout the decade, especially Ecuador, going from second to last to fifth lowest on the extreme poverty ranking. All countries greatly reduced extreme poverty and only Bolivia had a rate above 10% of the population. Mexico and Argentina had notable performances, with the highest annual average reductions, despite starting from already very low rates in the early 2000s.

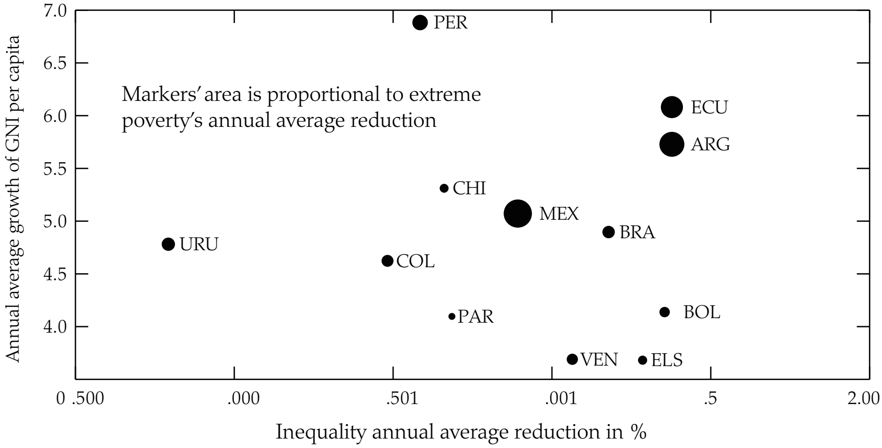
Chart 7. Extreme poverty rate US$ PPP 1.25/day, 2000-2010



Source: World Bank. World Development Indicators and Global Development Finance.

Looking, at Chart 7, the trajectories of extreme poverty in each country and not taking into account Chile and Uruguay, whose rates were already very low at the beginning of the last decade, it is possible to note two groups. The first one is the most numerous and comprises countries where most of the decline in extreme poverty occurred in the first half of the decade: Bolivia, Ecuador, Mexico, Paraguay and Peru. The second consists of Argentina, Colombia, El Salvador and Venezuela, where the bulk of the fall of the extreme poverty gap occurred in the middle of the decade, and in the case of Argentina and Venezuela it was preceded by an increase in the first years. Brazil does not fit well into either group because it had a continued decline of extreme poverty from 2001 to 2009.

Chart 8. GNI growth, Gini reduction and extreme poverty reduction

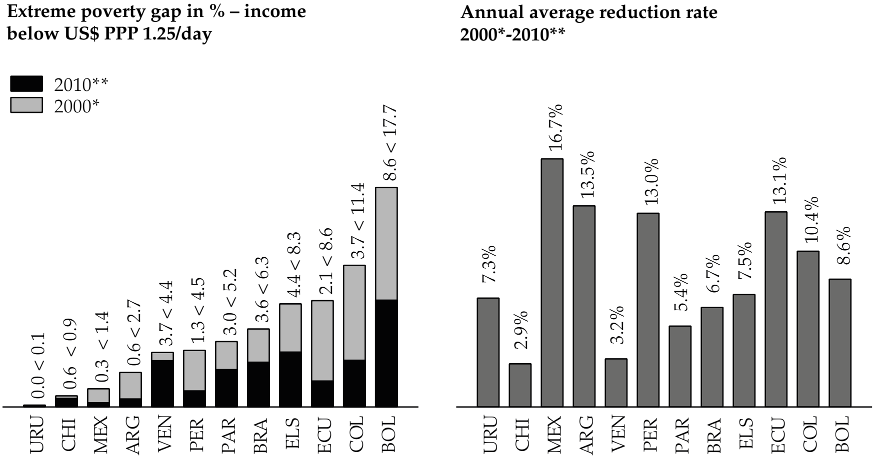


Source: World Bank. World Development Indicators and Global Development Finance.

Chart 8 links the drop in extreme poverty (markers' area) to the reduced inequality (horizontal axis) and GNI growth (vertical axis). Except for Mexico, countries that were most successful in reducing extreme poverty were also, not surprisingly, the ones that registered fastest growing and reduced inequality the most – Argentina and Ecuador –, and Peru, which offset a smaller inequality reduction with a greater GNI growth.

The reduction of extreme poverty gap was also substantive. Chart 9 shows that, in 2000 or 2001, only four of the 12 countries had a gap below 4% the per capita line. In the last year for which data is available, only Bolivia and El Salvador had the extreme poverty gap above 4%, with four countries boasting rates well below 1%. Over time, the extreme poverty gap follows just more smoothly the extreme poverty rate fluctuations, as can be seen in Chart 10. That is, the theoretical cost per capita for the eradication of extreme poverty in the region (which is estimated by the gap as a percentage of the extreme poverty line) is very low.

Chart 9. Extreme poverty gap US$ PPP 1.25/day, 2000 and 2010; annual average reduction rate



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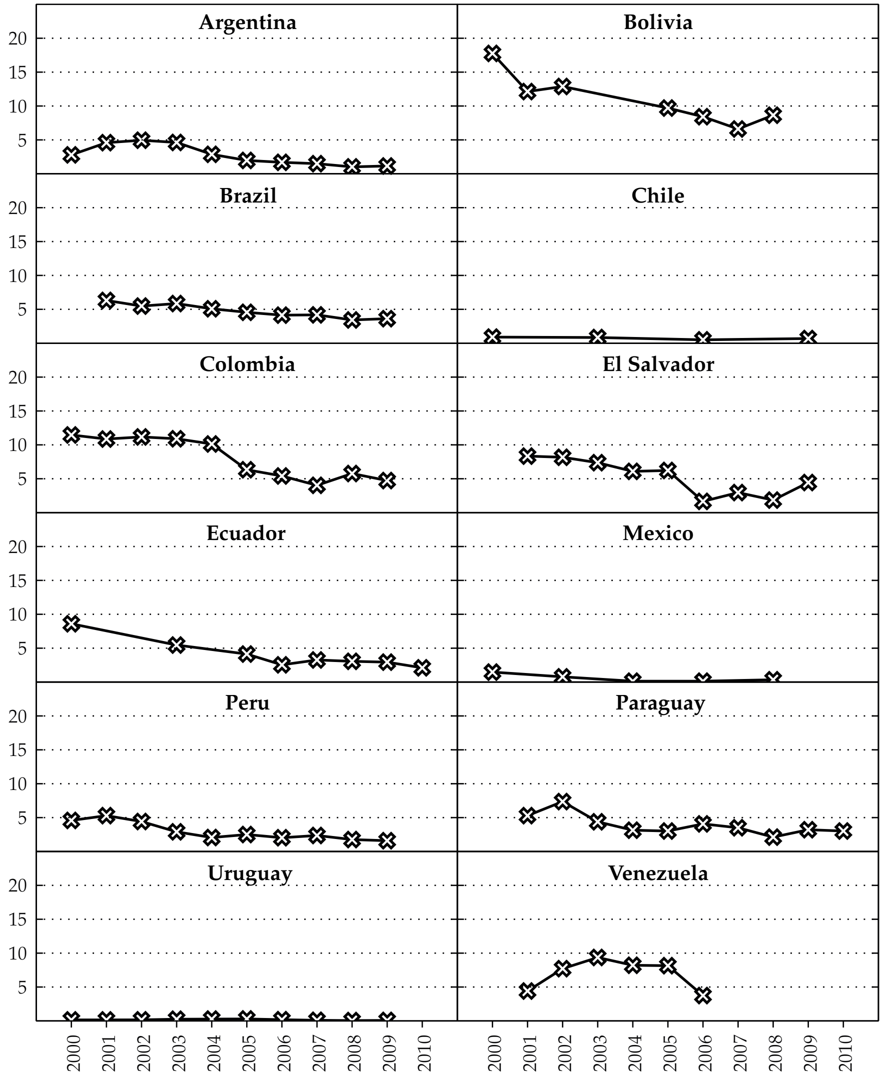
**Except BRA, CHI, ELS: 2009; MEX, BOL: 2008; VEN: 2006

Source: World Bank. World Development Indicators and Global Development Finance.

Considering higher poverty lines, for example, US$ 2 PPP per capita daily, displayed in Chart 11, the rate reduction performance is somewhat smaller, but with a pattern similar to Chart 6 with regard to the extreme poverty line. As poverty reduction is linked to income growth and/or reduction of inequality, countries that performed better in reducing extreme poverty (Chart 8) were also the best for this higher line, in spite of some minor changes in their order.

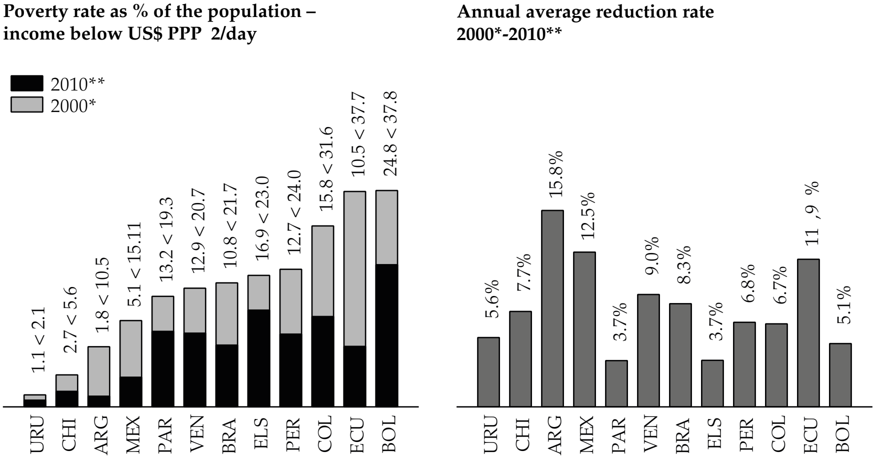
In short, the indicators show that by taking income as an indicator of welfare, the 12 selected countries experienced unambiguous gains, with an overall reduction of poverty and extreme poverty. Much of these gains came from increased income, as shown by the GNI per capita growth. Another part stemmed from a very celebrated novelty, given the history of these countries and Latin America: the fall of income inequality. Except for Uruguay, which in the early 2000s had reached a low level compared to regional standards, all recorded reductions in inequality; in some countries, the Gini coefficient fell at a rate of more than 1% per year. But there is still plenty of room for further drops. Inequality remains quite high compared to European countries, many of which have a Gini coefficient in the 20-30 points range: at the end of the decade, of the 12 countries surveyed, five still had a Gini coefficient over 50 and none below 40.

Chart 10. Extreme poverty gap US$ PPP 1.25/day, 2000-2010



Source: World Bank. World Development Indicators and Global Development Finance.

Chart 11. Poverty rate US$ PPP 2/day, 2000 and 2010; annual average reduction rate



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Source: World Bank. World Development Indicators and Global Development Finance.

The fall of inequality was important to extend reductions of poverty and extreme poverty, but income growth seems to have been the main factor, since countries that have experienced larger reductions of poverty were the ones recording the greatest GNI growth. In this regard, Mexico stood out for having achieved a considerably higher reduction of extreme poverty than other countries, even those with higher growth and greater inequality reduction. Even more surprising is to see that Uruguay reached an extreme poverty rate of 0% (that is, statistically eradicated), although in the real world, there will still be people living in extreme poverty here and there. At least three more countries head towards an extreme poverty rate of 0% in the short term, if trends are upheld, namely: Argentina, Chile and Mexico. If the phenomenon of development with inclusive growth continues to manifest in the region, one can expect that, with some lag, other countries will repeat the feat and that, once extreme poverty is statistically eradicated, the largest groups of people living below the poverty line will also gradually decrease.